

*Laxalt***The Philippines: Current Developments**

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Because Marcos's physical and mental reserves to cope with another illness are low he has little energy to face key political problems, such as the Communist insurgency and elections for mayors and governors next year. He is already feeling pressured by the US on reform issues and views events such as the withdrawal of General Ver's invitation to General Vessey's retirement several weeks ago as deliberate moves by the US to embarrass him and undermine his regime.

- Under these conditions, Marcos seems certain to increasingly depend on the support of key associates such as agricultural magnates Eduardo Cojuangco and Roberto Benedicto, who provide critical campaign financing and political support.
- Marcos will avoid undertaking substantial reform because it would require that he move against his most trusted and loyal supporters.

Marcos now seems poised to resolve the status of General Ver who has been on a leave of absence from his position as Armed Forces Chief of Staff since being implicated last year in the assassination of Benigno Aquino.

- Marcos told Senator Laxalt last week that Ver would be cleared by the court and reinstated by early November. Marcos said that Ver's return might be of "limited duration" but would probably last at least one year.
- Marcos's decision on Ver should not be viewed as a litmus test of the effectiveness of US policy. We believe Ver is essentially a henchman, and only a symptom of the problem.

*Lead*  
The Communist insurgency will continue to gain, especially in light of the dismal performance of the Armed Forces and Marcos's continued refusal to make reforms. The Party has successfully stepped up its united front and recruitment activities to capitalize on widespread disaffection with the regime and a deteriorating economy.

- It has assembled an extensive political organization over 16 years that now yields considerable influence over villages inhabited by at least 5 million people.
- To better coordinate its burgeoning political apparatus, the Party

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reportedly moved last year to strengthen decisionmaking in its General Committee--a development that allows for more coordinated policy across regional lines.

On the military side, the New People's Army has demonstrated increasingly sophisticated military capabilities nationwide and is conducting frequent raids using groups of 100 - 300 men against fixed military posts.

-- These attacks are characterized by effective command and control, secure communications, and good intelligence.

-- [redacted] the NPA is building military cells in key urban areas and plans eventually to embark on terrorist activities in Manila, though this would expose its apparatus in the capital.

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-- The NPA has accomplished its goals with no steady foreign supply of weapons. This will probably change if the NPA decides to engage the Armed Forces in sustained combat--which is well beyond its present capabilities.

The government's counterinsurgency effort continues to be hampered by the depressed economy. GNP fell 5 percent last year and will probably decline 4 percent this year.

-- The IMF program has been delayed pending reforms in the sugar and coconut industries and new taxes to reduce the budget deficit. A \$100 million disbursement from the Fund will probably be released in November, but further delays beyond November would threaten the \$925 million financial package provided by commercial creditors.

-- Nonetheless, inflation is down to 3 percent, foreign exchange reserves increased \$1 billion over the last year, interest rates are half of last year's 40-percent levels, and the current account is nearly in balance.

-- We believe that the economic decline stopped in the third quarter of this year. With improved export earnings--and barring a domestic political crisis--the GNP can probably grow by as much as 3.5 percent next year and 6 percent in 1987. But even with this "best-case" projection, 1987 per capita income would still be 12 percent below its peak in 1981.

Although the moderate opposition has put Marcos on the defensive in recent months by exploiting explosive issues--such as the foreign wealth scandal--and instituting embarrassing presidential impeachment proceedings last August, it continues to suffer from internal weaknesses that seriously undermine its prospects in the 1986 local and 1987 presidential elections.

-- Most traditional opposition groups--as is Marcos's ruling party--are organized around personalities rather than issues--a circumstance that has resulted in serious splits within opposition ranks.

-- Although most opposition members publicly have called for an immediate review or termination of the bases agreement, many privately have assured US officials that they believe retention of the bases is good for the Philippines and regional security.

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Players	Assets	Liabilities	Remarks
Imelda Marcos	Vast financial and political resources accrued through positions as Minister of Human Settlements and Governor of Metropolitan Manila ... tight control of access to Marcos's powerful allies—Romualdez, Cojuangco, and Ver.	Lost standing in party when she failed to deliver Manila in National Assembly election ... many senior officers in military think she is incapable of running the government ... reportedly lacks Marcos's political astuteness.	Recent activities suggest desire to succeed Marcos remains ... does not recognize her unpopularity ... could move to seize power if she determines she cannot secure the ruling party's nomination, which she probably expects ... <i>requires husband's support to succeed.</i>
Juan Ponce Enrile	Has amassed considerable financial and political resources in his years as Defense Minister ... longstanding relationship with Eduardo Cojuangco who reportedly would back his bid ... has been mending fences in the ruling party ... small group of officers in the military loyal to him.	Closely associated with martial law ... power has eroded as Ver's influence has risen ... many see him as political "has been" ...	Has declared himself a candidate ... attempting to identify with General Ramos's untarnished image ... would probably seek to build alliances with opposition to gain support for his bid ... many in both ruling party and opposition believe he carries too much political baggage to win ... <i>has a reasonably good chance.</i>
Eduardo Cojuangco	Wields tremendous political and financial clout, including well-oiled political machine nationwide ... one of Marcos's principal cronies ... business interests include control over the coconut industry and the Philippines' largest food processing company ... US Embassy estimates he may be a billionaire.		<i>Appears to want to influence the succession without becoming a contender ... will be a key behind-the-scenes player ... will back whomever he believes capable of winning and protecting his interests.</i>
Arturo Tolentino	Highly independent KBL member ... well respected by party members as well as among opposition and foreign observers ... former Minister of Foreign Affairs.	Advanced age ... longtime associate of Marcos ... lacks national political machine.	Wants to oversee the transition from Marcos to new leader and would like to be a candidate ... <i>could be a compromise candidate for opposition and ruling party members.</i>
Jose Rono	Shrewd politician ... one of Marcos's closest political advisers ... effective moderator between opposition and ruling party assemblymen ... Deputy Prime Minister, Minister of Local Government, Secretary General of the ruling party.	Viewed by many as a Marcos sychophant.	<i>Reportedly is being considered as a good vice-presidential candidate ... his political expertise and leadership skills in the party would make him a valuable ally.</i>
Salvador Laurel	President of UNIDO, largest opposition coalition ... has attempted to fill void left by Aquino's death ... former Senator ... has national recognition.	Epitomizes old style politician ... not charismatic ... family associated with Marcos ... served in the interim National Assembly ... was once member of ruling party ... unable to galvanize opposition following Aquino's assassination.	Is clearly a candidate, but would not be a popular choice among opposition ... at a minimum will figure prominently in opposition selection ... <i>probably will not succeed.</i>
Corazon Aquino	Wife of slain leader Benigno Aquino ... has taken highly visible political stand since the assassination ... widely recognized and is popular at the grassroots level.	Had no political experience before the assassination ... is first cousin to Eduardo Cojuangco.	<i>Many in opposition believe she could win on popular appeal alone ... is likely to face resistance from opposition members who do not feel she has paid her dues ... we believe her support would be essential for any opposition candidate.</i>
Ramon Mitra	Member of opposition group PDP-Laban and National Assemblyman ... charismatic speaker with national standing ... could probably depend on financial support of Cojuangco.	Association with Cojuangco has tarnished his credentials in opposition circles ... longstanding association could damage his chances for securing support for his candidacy.	Has been mentioned by many observers as a possible candidate ... or as a vice-presidential candidate on a KBL-opposition coalition ticket ... <i>likely to be an opposition contender.</i>
Jovito Salonga	Recently returned to Philippines after four-year exile in US ... president of Liberal Party, well respected in opposition ranks ... severely wounded in attack in 1971 ... nationally known.	Years in exile have isolated him from opposition mainstream ... divisions in party may be exacerbated by his return.	Commands substantial influence within the opposition and is often mentioned as a serious opposition contender ... his candidacy would probably cause dissension within opposition, especially among those who believe that his years of exile should preclude his getting involved ... <i>faces an uphill battle for the opposition nomination.</i>
Aquilino Pimentel	Leading opposition assemblyman with national recognition ... established his credentials by becoming active in rallies after the Aquino assassination ... Chairman of	Still has subversion charges pending against him ... Supreme Court has barred him from taking seat in National Assembly.	<i>Often mentioned by many observers as key opposition contender ... strong stand against US bases will hurt his chances with moderate opposition members.</i>